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DIRECTORATE OF  
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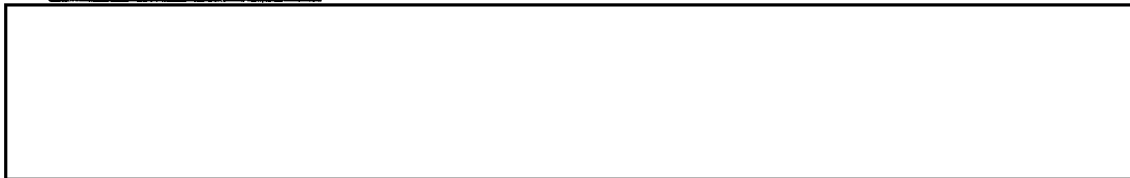
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[ EGYPT: President Sadat in one move has disposed of a number of critics and possible rivals, reflecting confidence in his political strength but leaving an array of powerful victims on the sidelines.

The "resignations" of Interior Minister Sharawi Goma and Minister for Presidential Affairs Sami Sharaf had also been augured in conflicting rumors of impending changes, stimulated by the unanticipated dismissal of Vice President Ali Sabri on 2 May. Goma, who controlled the internal security services, and Sharaf, with extensive connections in the Presidency, were considered two of the most powerful men in the nation. War Minister Muhammad Fawzi was among other selected targets of Sadat's purge. Sadat's actions underscore his resolve to rule as well as reign in Cairo by securing his personal control over the instruments of power.

A start has been made in filling the vacated posts with the announced appointment of a former Nasir associate, Mamduh Salim as interior minister. Recently appointed governor of Alexandria, Salim's background in security work makes him technically qualified to head the Ministry of the Interior. Chief of Staff Muhammad Sadiq, the new minister of war, is reputed to have broader support in the military than did his predecessor.

By these purges Sadat will be free to exert personal control over the affairs of the country and deal with domestic and foreign problems in his own way. This latest display of personal authority suggests a good deal of confidence in his ability to make the changes stick.

The replacement yesterday of the lackluster General Fawzi may have been intended to gain further favor with the military. A statement broadcast by Cairo Radio last night seemed designed to generate ]

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[ broad civilian support for Sadat's actions by suggesting that at least some of those ousted had been plotting to impose "tutelage and domination over the people" through "repression and terror."

Sadat will need all the support he can get; the men he has dismissed have strong claims to Nasir's mantle themselves and some, notably Goma and Sharaf, have had time to establish power bases of their own. The statement Sadat is scheduled to broadcast today should make clearer what he intends to do and how he expects to go about it.

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INDIA-PAKISTAN: The presence of more than two million East Pakistani refugees in India is a growing irritant in Indo-Pakistani relations.

Although no exact figures are available, Indian officials recently claimed that the refugees numbered 1.8 million, with an average of 60,000 arriving daily. Indian relief facilities are badly strained, and sharply rising food prices in the border areas are antagonizing the local Indian population. New Delhi is concerned that tension between the residents and the refugees could lead to violence between Indian Hindus and East Bengali refugees, many of whom are Muslims. There is a growing feeling in Indian Government circles that the international community must "do something soon" to stem the flow of refugees or New Delhi will be forced to take unspecified "unilateral action."

The Indians believe that the Pakistani Army will attempt to seal the border against a further Muslim exodus, but that the Pakistanis may continue to encourage the Hindus to flee. New Delhi fears that once established in India, many Hindu refugees--and possibly some Muslims as well--will be reluctant to accept repatriation, no matter what conditions eventually exist in East Pakistan.

Meanwhile, the Indians and the Pakistanis have exchanged recriminations on the situation in East Pakistan before the UN Economic and Social Council. The Indian delegate charged the Pakistanis with violating the human rights of the Bengalis, and the Pakistanis blamed India for stimulating secession in the province. Nevertheless, despite these emotional charges, the debate was generally restrained.

East Pakistan, and particularly the refugee situation, is likely to be the main topic of discussion in the Indian Parliament when it reconvenes on 24 May. Opposition politicians, as well as some "young Turks" in Prime Minister Gandhi's Ruling Congress party, may press strongly for Indian recognition of an independent Bangla Desh. Mrs. Gandhi

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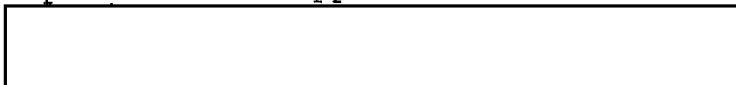
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may make some move short of recognition to placate her critics; as a starting point, India's presentation at the UN should help answer those who maintain that the government has not taken a strong enough position in support of the embattled East Pakistanis.



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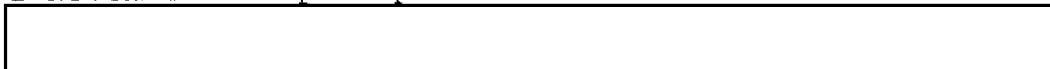
BERLIN: Pankow's exceedingly tough position in the latest session of negotiations with the West Berlin Senat has scotched prospects for a Pentecost pass agreement that would have allowed West Berliners to visit relatives in the East during the religious holiday later this month.

The West Berliners, in an effort to seize the initiative in the stalled talks, tabled a pass proposal at the session on 12 May in the form of a letter exchange. One letter--which contained a simple pass formula covering the Pentecost holiday--was addressed to the Senat and was to be signed by the East German negotiator. The other was a short letter of acceptance to be signed by the Senat. The East Germans promptly rejected the exchange on the grounds that it was not a formal agreement and that it contained unacceptable proposals and nomenclature.

The East German negotiator also took a number of positions that he knew were unacceptable to the Senat, insisting, for example, that a pass agreement had to be preceded by the Senat's renunciation of the Federal government's presence in West Berlin. In addition he implied that the Senat should help East Germany to gain membership in international organizations, although this is strongly opposed by Bonn.

The meeting was less friendly than previous ones and the East German negotiator was described as "harder and insistent." It was the first pass talks since Erich Honecker became party first secretary on 3 May. The harsh tone obviously was intended to impress the West Berliners that Honecker intends to pursue a hard line in East-West relations.

Negotiations are to be resumed on 30 June after the East German party congress. The goal will apparently be to discuss passes for All Saints Day on 1 November and perhaps for Christmas and New Year's.



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NORWAY: Prime Minister Bratteli's Labor government has gained an overwhelming endorsement for its foreign policy program from the Labor Party congress held earlier this week.

The greatest debate was prompted by the government's decision to continue negotiations for membership in the European Communities (EC). Although opposition within the party was greater than the leadership anticipated, the congress delegates voted by a three-to-one ratio in support of the government's policy. The party congress also specified its support for the government's decision to hold a national referendum on the question of EC membership before Parliament makes a final decision.

Bratelli's insistence that Norway's security policy is firmly based on membership in NATO and his reluctance to undermine West Germany's Ostpolitik were also supported by the overwhelming majority of delegates, who soundly defeated resolutions calling for withdrawal from NATO and recognition of East Germany. However, the congress placed the government on notice that special efforts would have to be made in NATO and other international organizations to restore democracy to Greece and Portugal and to end the latter's colonial policy. The congress called for an end to arms deliveries to both countries. The congress also went on record as favoring improved trade relations and closer nongovernment ties with East Germany.

The government's moves toward eventual recognition of North Vietnam were met with general satisfaction, and no demands for speedier action were made. The congress also supported the convening of a conference on European security, but adhered to the government's reservation that a satisfactory outcome of the Berlin talks would have to precede multilateral preparations for any such conference.

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The smooth progress of the Labor Party congress is a great success for Bratteli, particularly in regard to the EC issue. He will probably use the congress' mandate on membership negotiations to keep reluctant Labor legislators in line when Parliament debates EC entry later this month.

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HUNGARY: Government changes announced yesterday will have the effects of upgrading professionally oriented technocrats and demoting a few high-ranking party officials of dubious qualifications.

Even though the recent national elections provided party chief Kadar an excellent opportunity for major changes, he again avoided any but the most pressing shifts of key personnel. Both the defense and foreign ministers, who respectively have serious health and image problems, were probably kept in office only because of Kadar's aversion to unsettling the internal balances in his regime.

The most important demotion was the transfer of Antal Apro from deputy premier in charge of CEMA relations to a formalistic post as president of the national assembly. This resulted in the dropping of the old president, politburo member Gyula Kallai, from the government. Both men were past the legal retirement age and had been ineffective. Apro's failings were particularly serious because of the Hungarians' stake in influencing reforms within CEMA. Apro's replacement is Peter Valyi, a younger economist who had served as finance minister since 1967.

Other changes include the appointments of younger professionals to head the ministries of light and heavy industry and to replace Valyi as finance minister. The new ministers will probably be more flexible and responsive to economic reforms than were their predecessors. In consonance with Kadar's policy of involving highly qualified non-Communists in the government, two new ministers are former members of now defunct liberal-nationalist parties.

One other noteworthy change was the appointment of Imre Miklos to head the office for church affairs. Miklos, like his predecessor retired minister Jozsef Prantner, is an advocate of tough but pragmatic policies toward the churches.

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JAPAN - COMMUNIST CHINA: Peking's efforts to broaden contacts with important Japanese groups has heightened popular sentiment for improved ties with China.

Wang Hsiao-yun, political leader of the Chinese ping pong delegation which recently ended a month-long visit to Japan, met with a wide variety of Japanese including ruling conservative party officials and business leaders. He also extended numerous invitations for unofficial visits to the mainland, and the way may now be open for a resumption of large-scale exchanges.

In addition to seeing Peking's well-known friends in labor and the opposition parties, Wang reportedly held unprecedented meetings with two leading conservative aspirants for the prime ministership to sound out their attitudes toward improved relations with China. Meetings were also held with the chairman of the Buddhist-based Komeito party and a wide spectrum of business leaders, ranging from textile industry leaders to a top-level group of Tokyo businessmen close to Prime Minister Sato.

The skillful Chinese diplomacy during the visit appears to have projected a friendly, reasonable image of China and largely dispelled lingering uneasiness in Japan resulting from excesses of the Cultural Revolution. The Chinese avoided political subjects and refrained from public attacks on the Sato government. The favorable public reaction to extensive media coverage of the Chinese visit clearly has further increased pressure on Prime Minister Sato to take a more positive stance on the China issue.

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ANGOLA: The morale of the Angolan Revolutionary Government in Exile (GRAE) apparently is at a new low because of an allegedly critical shortage of material and financial resources.

GRAE leader Holden Roberto reportedly believes that drastic measures will be necessary to prevent the disintegration of the Congo-based Angolan insurgent organization. [REDACTED]

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As an economy move, Roberto has ordered many of the GRAE units along the Congo-Angolan border to "live off the land." He also plans to send his family out of the country in preparation for a showdown with President Mobutu and with other GRAE leaders, who have become increasingly disenchanted with his leadership and with GRAE's marked lack of success against Portuguese forces.

Roberto probably hopes to persuade Mobutu, his major benefactor, to reverse a decision of last December that cut in half the Kinshasa government's monthly subsidy to GRAE. Roberto may stop short of a press conference because he is aware that Mobutu would probably resent a public appeal for assistance. He also may believe that in the end Mobutu will give some additional support for the insurgents in order to maintain his pronationalist credentials with black African states. Roberto, however, is unlikely to obtain much additional aid from the OAU, which has long favored the more militant, pro-Soviet Popular Movement for the Liberation of Angola. [REDACTED]

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SIERRA LEONE: President Stevens, very much on top after his near ouster in March, continues to pursue a vindictive hard line against his opponents.

His foes, however, are in disarray, and Stevens is now sufficiently secure to permit the return home of half of the 200 Guinean troops whose timely arrival enabled him to survive a coup attempt in March and reassert his authority. Nevertheless, Stevens remains apprehensive and is using his newly acquired and near-dictatorial powers to maintain the pressure on opponents.

Two leaders of the party faction that challenged him last fall remain in jail uncharged. Moreover, the 12 political opponents whose convictions in 1967 on treason charges were overturned this week by an appeals court will remain under detention because Stevens has ordered new charges brought against them. Meanwhile, the secret court martial of former army commander Bangura and other officers implicated in the attempt to overthrow Stevens is proceeding. Many will probably be sentenced to death.

Stevens, concerned about his badly eroded popular base and the country's worsening economic situation, is making some attempts to mend political fences. He passed over his most trusted political ally for the post of vice president in an effort to appease a large tribal bloc of supporters previously unrepresented in the leadership. More attention also is being paid to party organization, and prominent citizens are being pressed into joining the ruling party in an effort to refurbish its image and, perhaps, to create a bandwagon effect.

Efforts to transform the army into a reliable instrument of the government have so far been largely unsuccessful, and Stevens remains concerned about its loyalty. He has talked of creating a popular militia. Nevertheless, Stevens appears to control sufficient force to maintain his position at this time, and few within the country now dare challenge him openly.

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MEXICO-GUATEMALA: Terrorism and security were the major topics discussed by Presidents Echeverria and Arana during their meeting at the border on 8 May.

Although their joint communiqué did not mention the topic, Guatemalan Foreign Minister Herrera told the US ambassador that the guerrilla-terrorist problem dominated the meeting. President Echeverria reportedly queried Guatemalan President Arana extensively on the origin and development of the guerrilla movement and on the counterinsurgent effort. He then gave Arana a rundown on his recent expulsion of Soviet diplomats following the discovery of a guerrilla plot. Echeverria promised to crack down on Guatemalan exiles operating in Mexico and even told Arana that Mexico would "cease to be a bridge between Cuba and the insurgents of Latin America."

Herrera's version of Echeverria's positions seems consistent with the Mexican President's very strong anti-Communist line and his sensitivity regarding subversive activity. A high official in the Mexican foreign office earlier this week told a US official that relations with Cuba had cooled considerably over the past year and that no progress had been made on renewing the bilateral civil air agreement that Mexico denounced last July.

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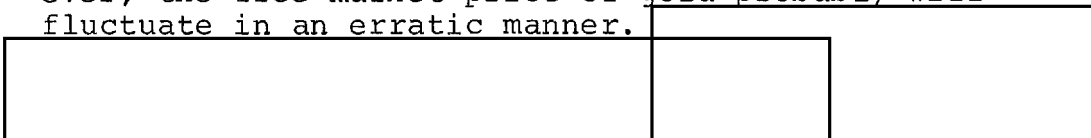
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GOLD: Gold markets were active this week in response to the international monetary situation.

Yesterday free market gold prices reached \$41.30, the highest level since October 1969. The increase stems more from a lack of sellers than a preponderance of buyers. Both uncertainty regarding the future of the international monetary system and recent purchases of \$422 million of US Treasury gold by the central banks of Belgium, the Netherlands and France contribute to the unsettled market. These purchases bring the US monetary gold stock to its lowest level since World War II, covering less than one quarter of US short-term liabilities to foreigners.

The recent upward movement of the free market gold price, however, in no way portends the imminent collapse of the two-tier system, where monetary authorities deal in gold at \$35 per ounce, but supply and demand determine the free market price. Until German and Dutch currency parities are refixed, however, the free market price of gold probably will fluctuate in an erratic manner.



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CEYLON: Military leaders believe they now have the situation under control, but realize the insurgency is far from over. Their offensive against the insurgents in the back country appears to be limited to patrols, mostly along the main trails. Military chiefs estimate that over 1,000 rebels are holding out in various pockets around the island, with an unknown, but probably large, number of others lying low in Colombo. [REDACTED]



CHILE: Despite Allende's strict price control program, consumer prices increased 2.5 percent last month, slightly more than during April of last year. While this year's total price increase has been only six percent compared with 19 percent during the same period in 1970, the sharp increase in inflationary pressures caused by the regime's economic policies will make it increasingly difficult to hold the line on prices. Because declining foreign exchange reserves will limit the government's ability to import adequate supplies, Allende may soon be faced with choosing between inflation and shortages. [REDACTED]



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